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Message Text

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15
ACTION EB-07

INFO OCT-01 AF-06 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-01 /080 W
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R 311600Z OCT 75
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC 1841

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E.O. 11652: N/A
TAGS: EFIN, EINV, NI
SUBJECT: CONVERSATION WITH CENTRAL BANK DEPUTY GOVERNOR

REF: LAGOS 4145

1. DURING CALL ON CENTRAL BANK (CHN) DEPUTY GOVERNOR OLA VINCENT, EMBOFF WAS TOLD IT IS CBN POLICY NOT TO DIVULGE DETAILS OF NIGERIA'S HANDLING AND PLACEMENT OF FOREIGN EXCHANGE RESERVES. SUBJECT CURRENTLY LESS CRITICAL THAN IN 1974, WHEN FMG AMASSED DOLLARS 5 BILLION IN FOREIGN EXCHANGE RESERVES. GROWTH IN RESERVES IN FIRST SEVEN MONTHS OF 1975 HAS BEEN LESS THAN DOLLARS 500 MILLION (DUE TO MUCH LOSER FIRST HALF TRADE SURPLUS) AND FOR YEAR WILL PROBABLY NOT EXCEED DOLLARS ONE BILLION. BEFORE CLAMPS WERE PUT ON THEM, WORKING LEVEL CBN SOURCES TOLD EMBOFF NIGERIA'S RESERVES AT END OF 1974 WERE LARGELY IN UK AND US SHORT TERM TREASURY BILLS IN APPROXIMATELY 60-40 SPLIT, WITH LESS THAN ONE PERCENT IN OTHER CURRENCIES (REF).
VINCENT SAID THIS NO LONGER TRUE. IN FURTHERANCE FMG POLICY OF DIVERSIFICATION OF RESERVE HOLDINGS, RESERVES IN STERLING HAVE BEEN "CONSIDERABLY REDUCED." HE SAID A PORTION OF RESERVES WAS NOW IN MARKS, YEN AND FRENCH FRANCS BUT THAT BULK WAS STILL IN DOLLARS AND STERLING. FROM LATTER COMMENT IT MAY BE
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INFERRED THAT MOST OF THAT MOVED OUT OF STERLING HAS BEEN MOVED

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INTO DOLLARS. EMBASSY BELIEVES IT MAY BE MORE FRUITFUL FOR INTERESTED WASHINGTON AGENCIES TO ATTEMPT KEEP TABS ON NIGERIA'S RESERVES AT THAT END RATHER THAN THIS. ASSUMING MORGAN GUARANTY NOT WILLING TO COOPERATE, COULD NOT INFORMATION ON HOLDINGS BE SUPPLIED BY FED AND THROUGH FED BY BANK OF ENGLAND? SINCE APPARENTLY ONLY SMALL PORTION OF NIGERIA'S HOLDINGS ARE IN OTHER CURRENCIES OR IN NON-GOVERNMENT INSTRUMENTS, WHEREABOUTS OF HIGH PERCENTAGE OF FOREX HOLDINGS WOULD THUS BE KNOWN. IF THIS NOT FEASIBLE, WE WILL CONTINUE TO TRY AT THIS END.

2. ON QUESTION OF MORE NEW MERCHANT BANKS, VINCENT SAID DOOR WAS STILL OPEN. (ALTHOUGH FOUR U.S. BANKS OPENED MERCHANT BANKS IN LAGOS WITHIN PAST TWELVE MONTHS, QUESTION IS STILL LIVE, AS DEMONSTRATED BY VISITS TO EMBASSY PREVIOUS DAY OF CHEMICAL BANK WHICH ACTIVELY CONSIDERING MERCHANT BANK HERE, AND MANUFACTURERS HANOVER, WHICH INCLINED NOT TO OPEN HERE BUT WHICH MAY BE FORCED TO DO SO TO MEET COMPETITION.) NIGERIAN PARTICIPATION NOT REQUIRED BY LAW, BUT IN HIS WORDS "ADVISABLE." VINCENT CONFIRMED CBN'S UNHAPPINESS WITH PERFORMANCE TO DATE OF NEW MERCHANT BANKS. DESPITE PROMISES TO EMPHASIZE TERM LENDING, EQUIPMENT LEASING AND FACTORING AMONG OTHER SERVICES, ACTIVITIES OF MERCHANT BANKS SO FAR SCARCELY DIFFERENT FROM THOSE OF COMMERCIAL BANKS. HE SAID FMG WAS FOR TIME BEING ACCEPTING MERCHANT BANKS' ARGUMENT THAT INITIAL PERIOD OF PROFITABILITY IS REQUIRED, BUT ADDED THAT NEW BANKING LEGISLATION EXPECTED WITHIN NEXT YEAR WOULD FOCUS MERCHANT BANKS ON AREAS IN WHICH GOVERNMENT WANTED THEM ACTIVE.
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Disposition Date: 28 MAY 2004
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